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SUBJECT: GEORGIA BI-WEEKLY UPDATE JULY 13

[1](#)1. This cable contains current items of political, economic, and social interest concerning Georgia during the weeks of June 30-July 13.

Education Minister Disputes Corruption Charges

[1](#)2. A corruption controversy surrounding Education Minister Alexander Lomaia reached a crescendo on June 29 when the embattled Minister testified before Parliament. Repudiating a report issued in May by the Chamber of Control which implicated Lomaia's Ministry in the embezzlement of funds up to 40 million Georgian lari (USD 25 million) from projects in 2006, Lomaia dismissed the claims as "absurd and groundless." An influential member of the government and rumored future contender for higher office, Lomaia struck a combative tone at the hearing, accusing opposition MPs of settling political scores and the Chamber of Control of being a corrupt bureau in need of reform. A number of MPs, including Parliament Speaker Burjanadze, expressed dissatisfaction with Lomaia's aggressive comments. Following the heated parliamentary session, President Saakashvili publicly expressed support for Lomaia on July [1](#)6.

More Speculation on Government Reshuffle

[1](#)3. In the latest round in the popular media pastime of reporting on expected changes in the Georgian government, the newspaper Versia predicted that in September Prime Minister Zurab Noghaideli will be appointed Head of the National Bank and his current position will be offered to Tbilisi Mayor Gigi Ugulava. The article notes that recent scandals have taken some luster off two other perceived candidates for Prime Minister, former Defense Minister Irakli Okruashvili and Education Minister Alexander Lomaia. The article has current National Bank Head Roman Gotsiridze, the target of recent criticism in Parliament, becoming Ambassador to the Czech Republic.

Corruption Arrests in Kutaisi

[1](#)4. On July 2, the Constitutional Security Department arrested 24 officials of the municipal government of Kutaisi, Georgia's second-largest city, during a meeting in municipal headquarters. Charges brought against them include embezzlement of 600,000 Georgian lari (USD 375,000) of government funds.

Georgia Reacts to Sochi Olympics

[1](#)5. The International Olympic Committee awarded the 2014 Winter Olympics to Sochi, on Russia's Black Sea coast near Georgia's separatist region of Abkhazia, on July 4. President Saakashvili publicly welcomed the decision, saying it would draw international attention to the Caucasus region and to "peaceful settlement of frozen conflicts." Georgian Foreign Minister Bezhuashvili congratulated the Russian Ambassador in a meeting July 5, expressing confidence that the Games would be an opportunity for improved cooperation between Georgia and Russia. Some Georgian commentators expressed concern about the decision, however, arguing that Russia will try to use Abkhazia's infrastructure for the Games, and that this may help keep the conflict frozen for another seven years.

Abkhaz leader Sergei Bagapsh congratulated Russian President Putin saying "we view this victory as our own victory."

Constitutional Court Re-Locates to Batumi

16. On July 5, Georgia's Constitutional Court moved to Batumi, in the autonomous region of Adjara. The decision on the transfer was made by President Saakashvili last year, when he initiated amendments to the Law on the Constitutional Court. The major motivation for the transfer, as it was explained at the time, was to help increase the role of territorial units outside Tbilisi in state decision making. It has also been implied (though not stated explicitly) that physical distancing the Court from the capital would increase its independence. Opposition figures and the Georgian Young Lawyers Association (GYLA) have questioned the need for the move, arguing that it will increase costs and make access more difficult for many people, without significantly changing the court's role or independence.

UN Secretary General Makes Unexpected Visit

17. UN Secretary General Ban Ki-Moon arrived in Georgia on June 29 for a short, unannounced visit. He was met by Georgian President Mikheil Saakashvili, Parliament Speaker Nino Burjanadze and Foreign Minister Gela Bezhuashvili. The Secretary General requested that journalists not be allowed to film his visit. Media reports suggested that the discussions dealt with Georgia's separatist conflicts. Ban's predecessor, Kofi Annan, made a similar unannounced visit to Georgia early in his tenure as Secretary General.

EnergoPro's Contract Enters into Force

18. On July 6, the Czech company EnergoPro officially assumed ownership over the assets of the United Energy Distribution Company

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of Georgia (UEDC), the Energy Distribution Company of Adjara and six hydropower plants. EnergoPro now owns 70 percent of Georgia's electricity distribution assets. EnergoPro signed the privatization agreement with the Georgian government in February 2007, with EnergoPro assuming a total cost of USD 417 million. EnergoPro has already paid USD 132 million to the state budget. According to the contract, EnergoPro will spend USD 85 million to rehabilitate the hydropower plants, USD 100 million to rehabilitate the electricity distribution infrastructure, and USD 100 million to construct new hydropower generation facilities. EnergoPro owns 11 hydropower plants in the Czech Republic and 8 hydropower plants in Bulgaria.

Georgia Plans New Hydropower Projects

19. The Georgian Government has announced a 10-year energy program, which envisages the construction of a number of new hydropower generation facilities in Georgia. Recent steps in this direction include the Ministry of Energy's memorandum with the British company Continental Energy for a feasibility study on construction of the Khudoni hydropower plant on the Enguri River, 30 kilometers from Georgia's largest Enguri hydropower plant. The World Bank will provide USD 3.3 million for the study, which will envisage the construction of a 700 Megawatt plant and a 500 kV electricity transmission line. Eventual construction is estimated to cost USD 500-600 million. The GoG has also signed a memorandum with a Turkish Company, Urban, to build the 78 MW Paravani hydro plant in the Samtskhe-Javakheti region in southern Georgia. Total cost of investment in this project is estimated at USD 100-120 million. The government has signed another memorandum with the Russian state company Inter RAO UES to build one or more plants with a total capacity of around 100 MW, and to transit electricity between Georgia and Russia.

Baker Center Interested in Energy Strategy

110. On July 9 Marian K. Thompson the U.S. Department of Energy visited Georgia to discuss the Howard H. Baker Center's interest in establishing a dialogue with Georgian public and private energy sector officials to help Georgia strengthen its ability to develop

energy policy. The Department of Energy provided USD 15,000 in seed money for the project. The Baker Center envisions providing initial support in creating a central database on energy sector statistics, sponsoring symposia, and hosting exchange programs for energy sector representatives. Energy company representatives stressed Georgia's need for more stable and reliable energy distribution. The Georgian Foundation for Strategic and International Studies (GFSIS) expressed interest in working with the Baker Center to develop training modules for officials in the Ministries of Economic Development and Energy. Post will work closely with the Baker Center and GFSIS to ensure these efforts align with our current assistance strategies.

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